

Financial reporting and related matters

To: Audit and Accounts Committee

Meeting Date: 28 September 2023

From: Executive Director for Finance & Resources

Electoral division(s): All

Outcome: The Committee is updated on latest progress with:

- objections to the Council's accounts made to the auditor for 2016-17 and 2017-18
- use of resources conclusions (the auditor's work on value for money) for all years 2018-19 – 2022-23
- external audit of the Statement of Accounts for the year ending 31 March 2022
- public inspection and external audit of the Statement of Accounts for the year ending 31 March 2023
- planning for financial reporting and audit of the accounts for the year ending 31 March 2024

Recommendation: The Committee is invited to note and comment on the report and receive the appended progress report from the external auditor

Officer contact:

Name: Tom Kelly
Post: Service Director: Finance & Procurement
Email: tom.kelly@cambridgeshire.gov.uk
Tel: 01223 699241

1. Background

- 1.1 The Council published its [draft and unaudited statement of accounts](#) for 2022-23 on 20 July 2023. These are available on the Council's website and were received and discussed by this Committee at its meeting on 28 July 2023.
- 1.2 There are well-known and widespread challenges nationally with the timeliness of reaching audited, certified and completed financial statements for local government arising from various factors including regulatory and risk factors, auditor capacity and technical/accounting standard related issues. Nationally, this summer there were 632 overdue audit opinions in the cumulative backlog for local authorities. Although Cambridgeshire is in a stronger position than many Councils and is pleased that draft accounts have been published for the most recent year, this report details the current status of matters in the relevant years in chronological order.
- 1.3 On 18 July 2023, Lee Rowley, minister in the Department for Levelling-up Housing and Communities (DLUHC) wrote to local authorities providing an update on work to address the backlog in local audits. DLUHC are proposing to introduce a set of deadlines in statute for the completion of audits relating to financial years 2015-16 to present, after which auditors would provide as much assurance as possible for any years outstanding if necessary limiting their audit opinion on the basis of insufficient, appropriate evidence. This may result in a number of qualifications and disclaimers of opinions for a number of local authorities, but it is emphasised that statutory requirements for auditors to report on value for money arrangements would remain a high priority. We are aware that there are active discussions between the various stakeholders in the local audit system (including Councils, audit firms, professional bodies, government, the National Audit Office and Financial Reporting Council) about the implementation of these proposals. Until the fine details are announced, and given statutory or regulatory force, planning and focus is inhibited.

2. Main Issues

2.1 **Objections to the accounts in 2016-17 and 2017-18**

- 2.1.1 As at the date of drafting this report there remain two objections to the accounts for the years ending 2017 and 2018 with the Council's previous external auditor BDO LLP. Since the last Committee, the Council has continued to request regular updates from BDO and again escalated via PSAA. Timescales to determine the objections by the beginning of August were not met. BDO are actively replying to the Council's requests for updates and discussed with us that their revised target date was to issue the determinations by the date of this Committee meeting (a verbal update will be provided). In late August, we received an update from BDO reiterating that legal checks on their work on the objections had progressed and been returned to the firm and this led to presenting an individual further query to the Council relating to 2016-17. The Council provided a response to this within 4 working days on 4 September.

2.1.2 BDO has advised that they have accrued additional fees in relation to the work on the objections as well as their use of resources findings reported to the November 2021 Audit & Accounts Committee, which they will be looking to recover from the Council (this is enabled by legislation). The Council has requested itemisation of the amounts proposed. It will ultimately be for PSAA to determine any additional fees payable. The Council remains very dissatisfied by the delay in receiving the outcomes and that work appears to have happened slowly over a long period of time and will make representations to PSAA aimed at minimising the cost.

2.1.3 Our understanding is that once the objections in these years have been determined the completion and closure of the audits for those years will be certified.

2.2 Work by the auditor on use of resources for the years 2018-19 – 2021-22

2.2.1 With the determination of objections received by EY as auditor in 2019, 2020, 2021 and 2022 occurring in March 2023, and no further action or appeal on those matters, the auditor has been able to resume wider work on the Council's use of resources which will lead to their value for money opinion for those years.

2.2.2 This work includes sampling of expenditure and review of associated procurement arrangements, further to BDO's findings of weaknesses in this area in 2017-18. EY also consider the Council's financial sustainability (planning and managing resources for the long term), governance (making properly informed decisions and managing risk) and improving economy, efficiency and effectiveness. The Council is responding to enquiries relating to these years and EY will also refer to relevant work by internal audit. We welcome the progression of this part of the audit and are hopeful that in due course it will enable the auditor to issue several years of value for money opinions in quite quick succession.

2.3 Audit of the financial statements for the year ending 31 March 2022

2.3.1 This Committee received a provisional audit results report from EY for 2021-22 at its meeting on 9 February 2023. In order that EY could progress audits for other clients and such that the Council could focus on production of draft accounts for 2022-23 audit activity was largely paused during the spring and early summer and has resumed during August to complete the outstanding items.

2.3.2 EY have provided a progress update (dated 18 September 2022) which is appended to this report. EY have identified a number of findings which mainly relate to views on valuations, particularly related to Property, Plant and Equipment and as such are balance sheet presentation related. The progress on outstanding issues in August and September, means that the areas outstanding for the 2021-22 have reduced and the remaining areas to be completed are now limited to:

- Long term debtor – This Land. EY are testing projections contained within 2022 This Land Business Plan, back to underlying site-specific development appraisals and cashflows. This is thus a valuation matter.
- Unreconciled debtor balance – the Council has been asked to provide further explanation and evidence of system balances, following progress with resolving a VAT debtor balance. Further evidence is being provided to support the Council's assessment.

- Vehicles, plant and equipment balance. This again is thus a valuation matter that should not impact revenue.
- System and manual journals – an additional sample was selected in August, and a further sample in September.
- Cash – a query remains outstanding about school's cash balances. Further information is being provided by the Council.
- Audit closing procedures will need to be finalised upon resolution of the above, for example the letter of representation from the s151 Officer and a reassessment of going concern. No issues are expected from this as it is procedural.

It is anticipated these queries should be straightforwardly to resolve although in some cases there are dependencies on third parties or specialists within the finance team in order to complete.

2.4 Audit of the financial statements for the year ending 31 March 2023

2.4.1 There is a separate report to this committee covering the audit plan for the Pension Fund. Audit and activity in this area is underway.

2.4.2 EY have previously written to the Council and updated the Committee that they are not currently in a position to provide timescales for commencing the financial statements audit for 2022-23. This relates to the national proposals referred to in section 1.3 above. We are aware that there is not yet a settled position between all of the audit firms, DLUHC, the FRC and other stakeholders as to the approach to “catch-up” and reducing the backlog whether this entails cut-off dates for the most historic audits (which would have relatively little impact on the Council) or whether more universal action to reduce/remove audit work relating to 2022-23 will be tolerable national. It is now expected that a position statement will be made to local government bodies at the end of October, but that a legislative position will not be announced until late November. As such we are concerned no further audit work may take place on the Council's general accounts until then. As a consequence, the handling of the 2022-23 audit will knock on to the preparation, scope and scheduling of audit in 2023-24 with the new auditor, as set out in section 2.6 below.

2.5 Inspection and objections relating to 2022-23

2.5.1 The public inspection period ran for the 30 days up to 1 September 2023. Under legislation local electors and certain other persons are enabled to request to inspect the accounts and related records and documents. This year two local electors chose to exercise inspection rights and we count that 162 documents/accounting records were made available to them during the period 17 August 2023 – 1 September 2023.

2.5.2 Objections to the accounts can be made by local electors asking the auditor to apply for a declaration that a specific item of account is unlawful or that there are matters to be reported to the Council in the public interest. This year two objections were received and acknowledged by EY, both are from persons who have previously lodged objections with our auditors. The 2019-2022 objections were determined by the auditor in March 2023, with EY taking no further action at that time. The Council will fully co-operate with any enquiries by the auditor as part of its consideration of the latest objection.

2.6 Planning for accounts production and audit 2023-24

- 2.6.1 KPMG LLP is the appointed auditor to the Council for the five years commencing 1 April 2023. Liaison meetings have begun between the audit leads at KPMG and the Council's senior finance officers in order to build familiarisation with the Council's financial position and risk profile. KPMG are re-entering the local government audit market, in England, following a five-year gap and they report having avoided some of the backlog and capacity challenges facing existing suppliers. We understand KPMG expect to be in a position to provide an audit plan for 2023-24 and begin meeting with the Committee this winter. Contingent on national timelines and local circumstances/handover, KPMG have advised the Council of their preferred timescales for undertaking an interim/preliminary audit of the Council's main accounts and pension fund during 2024, providing the finance team with an initial planning basis.
- 2.6.2 We can expect the changeover of auditor to bring with it some early challenges in terms of adjustments to processes, additional background and familiarisation with systems and alternative perspectives / approaches to audit risk or code compliance. KPMG are intending to share their initial client questionnaires, focused on high risk/volume areas of the audit such as assets and business systems this month. Whilst there is changeover in auditor, the Council is planning for continuity this year with its registered general valuer, Bruton Knowles LLP, this will embed gains made in recent years with valuation methodology and data accuracy.
- 2.6.3 Since the Committee last met the corporate finance team has allocated resource to the resumed 2021-22 audit and fulfilment of inspection requests (as well non-accounts related activities such as business planning and investment appraisals). Once there is further certainty about timing of 2022-23 and 2023-24 audit activity it will be possible to commit to planning dates and delivery milestones. At present, regulations require publication of draft accounts by 31 May 2024 (although there is continuity debate with government as to whether there will be revision to these dates, this becomes more acute as time moves on given the uncertainty referred to in paragraph 1.3 above). The County Council is committed to bringing forward publication of its draft accounts, such that they are published earlier than 20 July in 2024.
- 2.6.4 The main areas identified for attention leading to a faster closedown of the accounts and published financial reports are:
- Business systems enhancements – streamlining the process for processing of annual fixed assets accounting journals
 - Property and valuations
 - valuer accountability for delivery of asset valuations much earlier (targeting January, 4 months earlier than 2023)
 - improved quality assurance and data manipulation through implementation of the Council's incoming asset management system, Concerto
 - componentised assets review – we anticipate it will be possible to simplify some of the data by reducing the number of assets that are valued in components
 - rolling programme review – bringing forward certain asset valuations in order to more evenly spread the valuation of assets across the five-year cycle

- solar assets – a specialist valuation was obtained for the 2022-23 accounts which should provide a firm footing for 2023-24
 - there is currently a HM Treasury review of the valuation of non-investment assets for financial reporting purposes concerned with potential reforms to the requirements and acceptable methodologies, reducing audit risk in this area – the Council would welcome this
- Finance capacity and resilience – through a re-assignment of responsibilities we are creating a more senior role focus on fixed assets and capital accounting
 - Improved processes for grant registers and receipt of payroll information from school payroll providers
 - Accounts document streamlining

Preparations are also progressing for implementation of IFRS 16 in relation to leases.

- 2.6.5 In their progress report at this meeting, EY repeat control observations included in their February report. Officers outlined responses to these observations in our accompanying at that time. In several areas improvements were made for production of the accounts for 2022-23 and further actions will be taken as part of planning for 2023-24.
- 2.6.6 The Committee has already provided a delegation to the section 151 officer and the Chair in consultation with the Vice Chair and Cllr Boden to sign the final Statement of Accounts, and to make any related declarations and representations taking account of the final audit results report to be received from the external auditor and agreed adjustments, contingent on receiving an unqualified financial statements opinion. This will be utilised in the event it is possible to finalise the accounts ahead of the next scheduled Committee date.

3. Significant issues and alignment with ambitions

There are no significant issues or implications for the ambitions:

- 3.1 Net zero carbon emissions for Cambridgeshire by 2045, and our communities and natural environment are supported to adapt and thrive as the climate changes
- 3.2 Travel across the county is safer and more environmentally sustainable
- 3.3 Health inequalities are reduced
- 3.4 People enjoy healthy, safe, and independent lives through timely support that is most suited to their needs
- 3.5 Helping people out of poverty and income inequality
- 3.6 Places and communities prosper because they have a resilient and inclusive economy, access to good quality public services and social justice is prioritised
- 3.7 Children and young people have opportunities to thrive

4. Source documents

[Council and committee meetings - Cambridgeshire County Council > Meetings \(cmis.uk.com\)](https://cmis.uk.com)

[Statement of accounts - Cambridgeshire County Council](#)

[Local Audit Liaison Committee - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

[HM Treasury review of non-investment asset valuations | Local Government Association](#)